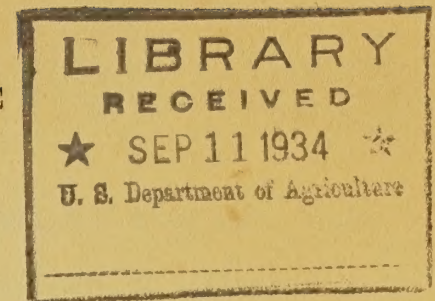


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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
Washington, D. C.

THE ECONOMIC SITUATION THAT GRAIN AND
LIVESTOCK FARMERS FACE IN 1935*



The 1934 crop year in the principal grain and livestock producing areas is rapidly drawing to a close. Farmers already are thinking about crop schedules for the coming year. Much fall plowing has already been done. Within a month, corn husking, the last of the harvesting jobs, will be under way. It is time to consider the question as to whether or not a production control program for feed grains and for livestock will be needed in 1935. Although it does not apply to wheat, because the present wheat contract runs through the next season, the question of production control in 1935 is of real importance to producers of all other grains and of livestock. The present corn-hog contract expires at the end of this year.

Before it will be possible for farmers to outline a desirable course in 1935, however, it is necessary to take a look at our economic situation at the present time, and to review what has happened during the past year. The present situation is characterized by abnormally small supplies of feed and by an unusually large liquidation of livestock.

In the August 1 Crop Report of the Department of Agriculture, the production of feed in 1934 was estimated as follows: Corn, 1,607,000,000 bushels or about 30 percent under what might have been expected at normal yields on the reduced acreage planted this year; oats, 545,000,000 bushels or 45 percent under normal production from the planted acreage; barley, 119,000,000 bushels or about 40 percent under the expected production; wheat (fed) 50,000,000 bushels and grain sorghums, 54,300,000 bushels.

*Presented at Regional Conferences to discuss the agricultural situation held in September, 1934.

The indicated production for 1934 is equivalent to 59,600,000 tons of feed grain as compared with 91,700,000 tons available in 1933-34 and a ten-year (1923-32) average of 102,700,000 tons. The hay crop is estimated at 53,700,000 tons, as compared with 74,600,000 tons average during 1933-34 and a ten-year average of 83,800,000 tons.

If the adjustment of livestock continues at the present rate, the number of head of livestock on farms January 1 may be about as follows: Hogs, 40 to 42 million head; cattle, 55 to 60 million head; sheep and lambs, 45 to 47 million head; chickens, 400 million head; horses and mules about 16.5 million head. These figures represent a possible reduction from a year ago of about 15 million head in hogs, between 7 and 12 million head in cattle and between 4 and 6 million head in sheep and lambs.

In spite of the rather marked adjustment of meat animals, supplies of small grains, feed grains, hay and pasture, per animal unit are shorter than for many years. As a consequence, prices of all kinds of feeds and grains this summer have been advancing sharply. This situation is placing a premium on feeds and is setting the stage for a big expansion in feed crops acreage in 1935, far in excess of actual requirements with anything like normal yields.

The corn-hog program has effected reduction in corn acreage and hog numbers, which, under normal circumstances, would have left total livestock and feed supplies within fair balance with their respective demand situations. Further adjustment probably would have been advisable in cattle and in sheep, but the excess production of hogs and corn largely would have been eliminated. The advent of the drought hastened some of the livestock adjustments under way, particularly in the case of cattle, but it also

raised new problems in feed supplies and the prospect for an excessive production of feed in 1935.

It may be well to view separately the effects of the 1933-34 corn-hog program and the drought. Take the adjustment program first. The initial adjustment was made a year ago when the Administration bought up around 6,200,000 pigs and something over 200,000 sows due to farrow. This emergency marketing made a timely adjustment in hog supplies from the 1933 pig crops and without doubt kept prices during the winter of 1933-34 at a substantially higher level than otherwise would have been the case. It will be remembered that a year ago unfavorable weather had reduced the corn crop, yet the spring pig crop then being fed for market was four percent larger than the year before and a larger number of sows had been bred for fall farrow than was the case a year earlier.

Further reduction in commercial hog supplies was made during the latter part of 1933 and the fore-part of 1934 by direct purchases for relief distribution of about 1,400,000 live hogs and of approximately 92,000,000 pounds of hog products, which were the equivalent of about 500,000 live hogs.

The more substantial adjustment in hog production, sought by producers and the major share of which may be credited to the 1934 corn-hog contract, came during the current year. According to the Government's pig crop report of June 1, the number of spring pigs saved this year for the United States as a whole was about 27 percent under the average of 1932-33. The Government report also indicated that the number of sows bred to farrow this fall will be at least 38 percent smaller than the average number bred to farrow during 1932 and 1933. These reductions will exceed the percentage of adjustment asked of individual contract signers, but the corn-hog

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contract is the major factor--possibly by as much as two-thirds of the total adjustment. The adjustment in hog numbers beyond the reduction made under the corn-hog contract is largely due to (1) the relatively high price of corn and the relatively low price of hogs at the time sows were bred for the 1934 spring pig crop and before even the emergency marketing program had effected adjustment in marketings and to (2) the effects of the drought in cutting corn production and thereby inducing a substantial rise in the price of corn. The prospect of smaller feed supplies during coming months also is causing the marketing of hogs at lighter weights than originally had been anticipated.

In the case of corn, the 1934 corn-hog program was largely responsible for a reduction in acreage during the past year. The total land area planted to corn in 1934 was 92,526,000 acres, that is about 13,000,000 acres below the 1932-33 average. This reduction is only a little more than 300,000 acres above the 12,656,000 acres of corn land contracted to the Secretary of Agriculture under the 1934 program.

The larger part of the reduction in total corn production this year, however, is due to the drought which cut sharply the yield per acre planted. At the average yields which are estimated to prevail this year, only around 250,000,000 bushels out of the total reduction of 900,000,000 bushels under the two-year average, is attributable to the corn-hog contract. That is to say, if there had been no corn-hog contract and the 12,656,000 "retired" acres had been grown to corn and if they had produced only the low yield per acre that prevails this year, probably not more than about 230 to 250 million bushels more corn would have been produced. It is obvious, therefore, that there would have been an extremely sharp reduction in corn supplies, even if there had been no reduction in acreage under the

adjustment program.

It has been estimated by the Administration that the supply of grain will be six percent larger and the hay supply will be 17 percent larger per consuming animal unit this year than otherwise would have been the case without the adjustments made by the Administration programs in hog, cattle and sheep numbers and if the contracted acres had not been planted to forage crops utilizable as livestock feed. This is not to suggest that there will be a "surplus" of feed. Actually, feed supplies per animal unit will be considerably below normal. Approximately .55 tons of feed grain per animal unit are available for the coming year as compared with .66 tons in 1933 and an average of .78 tons per year during the 1929-33 period. The supply of grain per animal consuming unit this year, therefore, is 83.3 percent of 1933 and 70.5 percent of the 1929-33 average. The supply of hay per hay-consuming animal unit for the coming year is .67 tons as compared with .95 tons in 1933 and 1.03 tons during the 1929-33 period.

The current situation may then be summarized somewhat as follows: Action of the Administration has made substantial adjustments in livestock numbers. Likewise, substantial adjustment in corn acreage, in line with the adjustment in hog numbers, also was made under the 1934 corn-hog contract. On account of the drought, however, the corn yield per acre and the production of all feed supplies is materially lower than average. Even with the adjustments in livestock numbers, there is a shortage of small grains, feed grains, hay and pasture. This has caused prices of all kinds of feeds and grains to advance sharply in relation to livestock prices.

In view of this current economic situation, then, what is the prospect for the coming year? What are the probable developments in production and prices of crops, particularly corn, if there is no program in 1935? What are the probabilities with respect to supplies and prices of livestock if no attempt is made directly to control the number of hogs and cattle produced during the coming year?

In the first place, our records indicate that, based on past experience, farmers are likely to plant more than the average acreage to feed grain crops in 1935, if no control program is adopted. In three seasons since 1866, in which corn yield per acre has been at the low level of less than twenty-one bushels on account of drought--1894, 1901 and 1930--corn acreage was greater the following year by an average increase of 7 percent. Likewise, oats acreage was increased the year following drought and in two out of three instances, barley acreage was increased.

Production, of course, is determined by yield as well as area planted so it is important to consider yield expectations in 1935. A study of yields following three severe drought years since 1866, that is, 1894, 1901 and 1930, shows that the yield of corn was higher in the season after the drought in three out of three instances, with an average increase from 19.6 bushels to 27 bushels per acre. The yield of both barley and oats also was higher in two out of three seasons following the years of unusual drought. These data indicate that the harvested yield of feed crops for any given year apparently is not closely related to the harvested yield in the preceding year. The reasonable expectation in 1935 should be normal yields on acres planted and the most practicable acreage for planting in 1935, therefore, should be determined on this basis.

Before one can fully appraise the probable effects of this tendency to increase acreage of feed grains in 1935, it is essential to consider also the probable numbers of livestock which will have to be fed during the next year. What will be the slaughter supplies, for example, during the summer of 1935? What will be the size of the spring pig crop in 1935 which will be fed in part from the 1935 grain crops? What is the prospect for a pick-up in effective domestic and foreign demand that might justify the stimulation of greater livestock numbers through plentiful feed supplies?

So far as livestock numbers are concerned, it now appears that the total number of hogs slaughtered in 1934-35 will not exceed 50 million head as compared with an average of nearly 70 million head in recent years. The June 1, 1934, pig survey report indicated that the number of sows bred for fall farrow would be reduced to 62 percent of the number in farrow last fall, indicating a total 1934 pig crop for the year about 68 percent as large as that of last year. As a result of the widespread drought which has developed since June, however, the 1934 crop is likely to be reduced to about 60 percent of the 1933 crop. This merely reflects the tendency for farmers to adjust hog numbers rather promptly to changes in feed supplies. It might also be expected that weights of hogs slaughtered during the coming year likely will be 10 to 15 percent under the average weight of those slaughtered during the past year.

In view of the relatively high prices of feed which likely will prevail during the late fall when sows are bred for spring farrowing, it also seems probable that the 1935 spring pig crop, without any sort of control program, will not be any larger than that of 1934. The ratio

between corn prices and hog prices, even at this time when hog prices are at the seasonal high level because of reduced marketings, is unfavorable to heavy feeding and to breeding for large pig crops next year. In local neighborhoods where the drought has seriously affected the corn crop, corn has been selling as high as \$1.00 per bushel during recent weeks. Hogs would have to sell on the farm in the neighborhood of ten to twelve dollars per hundredweight to be equivalent to such a price for corn. In the past farmers invariably have responded to such a hog-feed ratio by curtailing hog production. Of course, if a large feed grain crop should be produced in 1935, feed prices probably will decline materially and the stage would be set for a marked expansion in livestock production, particularly of hogs which can be increased in number more rapidly than any other class of livestock.

In the case of cattle and sheep, it seems likely that liquidation will continue through the remainder of the year. Early in 1935 the period of liquidation should terminate and the reduced supply of livestock should result in a material price advance. With favorable conditions for corn production in 1935, even on an acreage no larger than this year, it is conceivable that in the latter part of 1935 a ratio of feed prices to livestock prices might prevail which would stimulate heavy breeding of all species of meat-producing animals for 1936.

In summing up this situation, feed requirements, hence need for feed production, during the coming year will be under the average of past years, for the reason that livestock numbers will be relatively small. For example, hogs, which ordinarily eat about forty to fifty percent of the annual corn crop, will be down not less than 30% under

the two-year average. Thus, the corn crop in 1935 can be twelve to fifteen percent smaller than the average and still supply adequately the hog crop and the other uses for corn. The number of cattle is being reduced by the emergency cattle buying program so that the requirements of corn for cattle likewise will be reduced, possibly by as much as 50,000,000 bushels, or 2% of the average annual crop in past years. Therefore, if farmers in 1935 plant to feed grains including corn, no more than the average of the past few years, they actually will be planting an abnormal area in relation to the livestock numbers that will be available to consume the crop.

The final consideration in deciding on a 1935 program is the likelihood of an increase in demand for livestock products sufficient to justify encouraging an increase in livestock numbers. In the case of hogs there has been no appreciable improvement in foreign demand during the past year which would justify any increase in hog production on that account. Total exports of pork from the United States so far this year have shown some increase over a year ago, but these have been offset by a corresponding decline in exports of lard.

The German tariff and volume restrictions on lard importations are the most severe on record. The German lard tariff is equivalent to about 18 cents per pound at current rates of exchange; import quotas limit the monthly imports of lard during 1934 to 40 percent of the imports during the corresponding months of 1931-33. Recently, rigid restrictions also were placed on the volume of German money that may be converted into foreign money to pay for imports. All these trade barriers have practically eliminated our trade for the time being with Germany in hog products.

Great Britain, which is our principal market for cured pork, is drastically restricting pork imports from non-empire countries through the use of an import quota system. In recent months, England has taken an increasing volume of lard from the United States, but this increased volume has not been sufficient to offset the reduced volume taken by other foreign countries.

As regards our domestic market, it seems probable that the production of pork and lard per capita during the coming year will be the smallest in many years and may be below the average consumption level during the relatively stable pre-war period, 1910-14. From the standpoint of best balance between production of and demand

for pork and lard in this country, it may be desirable to increase hog production from the present level to some extent during the next few years. However, a material increase in production will not be warranted until there is evidence of a much stronger foreign and domestic demand than that which now prevails. A limited expansion to correct the maladjustment caused by the drought might be desirable but this can take place under a program which controls only feed supplies.

In the case of cattle, the present liquidation is in line with the program of adjustment which has been deemed necessary by the cattle industry. During each of the past six years cattlemen have produced from 1,000,000 to 1,500,000 more cattle than they have marketed. They have been adding to their herds faster than they have been selling off. This was the sixth year of the definite upward trend in numbers of cattle. Because of the lag from two to three years involved in growing out steers and heifers, market receipts of cattle for slaughter began to reflect the increase on farms only last season. This year there was a more perceptible increase which was reflected in depressed cattle prices.

Even if there had been no drought, the stage was set for an adjustment in cattle production. Before cattle were made a basic commodity under the Agricultural Adjustment Act, cattlemen of this country were considering ways and means for removing the surplus of cows and heifers from the farm and range. The opinion was frequently expressed that it might be desirable to eliminate about 6,000,000 head, one-third of which should be eliminated the first year.

As things turned out, of course, the drought intervened and it became necessary to begin buying cattle on a much larger scale than originally expected. The necessary liquidation is going to be so

large during the remainder of the year that it is now to the best interests of the industry to maintain as many cattle as limited feed and water supplies will permit. It is conceivable that by the end of the next six months, we will have gone from the top to near the bottom of a cattle production cycle in one year's time whereas in the past the duration of this phase of the cycle has been seven or eight years. This is an important fact to be considered in the determination of the most feasible feed grain production schedule in 1935 and following years.

The foregoing analysis of the present economic situation and probable trends in livestock numbers during the next year suggests a little more closely what may prove desirable in 1935. By the end of the year livestock numbers will be reduced materially. We will have passed out of the emergency phase where it is necessary to cut surpluses, into the phase where the problem is to obtain somewhat closer adjustment and then maintain it. There seems no longer the necessity for helping farmers directly to adjust livestock production such as existed in 1933 when the Agricultural Adjustment Administration came into being. If there is a close relationship between production of feed grains named as basic commodities in the Agricultural Adjustment Act, and the production of livestock, then the problem becomes much easier. It will not be necessary to establish quotas on livestock numbers. It will not be necessary to check compliance on the more difficult livestock adjustment phase of the program. If control of crops will do the job, individual producers can have more latitude in planning their own operations and yet prevent excessive increase in production during the next few years.

What do the economic studies show in this connection? There is a particularly close relationship between hog production and corn production over both long and short periods. Stated in terms of averages for the most recent ten-year period, a change of about 1% in corn production has been followed by a corresponding change of about 1% in the number of hogs slaughtered under Federal inspection. With the exception of 1910-1911 and 1918-1919, the corn supply available per hog is a good indication of the changes to be expected in hog slaughter. Moreover, changes in corn production are closely associated with changes in the weight per hog marketed through the following year. These studies bear out the observations and experiences of farmers. If feed grain production is held within certain limits, the level of hog production automatically will fall very closely within those limits.

The year-to-year changes in the trend in total cattle numbers in the United States are not as closely related as hogs to the yearly changes and trend in feed grain production, due largely to the importance of pasture and roughage in our national cattle production and to the length of time required to increase and decrease cattle production. However, the total tonnage of beef and veal production in the corn belt, which represents about one half of the total for the country, is influenced materially by the production and price of feed grains. There is very little relationship between production of feed grains and production of sheep in terms of either numbers or total weight in the United States. This is because sheep ordinarily consume not more than about one percent of the annual corn crop and hay and pasture constitute most of the sheep ration. It appears, therefore, that the net result of an adjustment in feed grain production probably would be about an equivalent percentage reduction in

hog numbers, some reduction in the supply of poultry numbers and grain-fed cattle and no material change in the production of dairy products and sheep and lambs.

In view of the factors in the present situation it appears feasible to consider some kind of a program in 1935 primarily to maintain feed grain production at such a level as will not cause an excessive expansion of livestock production. Because of the tendency among farmers during past years to increase the acreage of feed grains following a drought, and the fact that such increase at the present low level of livestock production would amount to serious surplus, it appears unwise to abandon now all efforts to keep production in best adjustment with demand.

Inevitably the production of both livestock and grains would get out of hand within a few years, if nothing is done. A year from now, feed prices probably would be low in relation to livestock prices and another one of the characteristic violent upswings in livestock production would get under way. Farmers again would be confronted with the problem of setting up machinery for production adjustment. In this connection, one may well call to mind the remark of a veteran cattle-feeder who said, "Cheap feed never really makes us any money; it gets everybody into the business and ruins livestock prices sooner or later."

In its full definition, adjustment pertains to maintenance or expansion as well as contraction. It is in the spirit of the Agricultural Adjustment Act to help farmers hold production at the most profitable level in the future, just as it was in the spirit of the Act in 1933 and 1934 to help farmers eliminate burdensome sur-

pluses as soon as possible through a program primarily of reduction. The emergency phase of the adjustment program involving removal of surpluses is nearly terminated. Shall we now enter the second phase of agricultural adjustment--that of maintaining a reasonable balance of feed grain and livestock production? That is the question for producers, themselves, now to decide.

